



*State of Wyoming*  
**DEPARTMENT OF REVENUE**

**MATTHEW H. MEAD**, Governor  
**EDMUND J. SCHMIDT**, Director

122 West 25th Street, 2-West, Cheyenne, Wyoming 82002-0110  
Telephone: (307) 777-7961 • Web: <http://revenue.state.wy.us> • E-mail: [dor@wy.gov](mailto:dor@wy.gov)

Administration Fax (307) 777-7722 • Property Tax Division Fax (307) 777-7527 • Excise Division Fax (307) 777-3632 • Mineral Division Fax (307) 777-7849 • Liquor Division Fax (307) 777-6255

**MEMORANDUM**

**TO:** All Department Assessed Companies and Interested Parties

**FROM:** Kenneth C. Uhrich  
Appraisal Supervisor  
Appraisal Services Group  
Property Tax Division

**SUBJECT:** 2012 Summary of Capitalization Rates for Department Assessments

**DATE:** March 19, 2012

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This document contains the 2012 capitalization rates for Department assessed industries. There are 8 pages listing the major industry, industry sub-groupings (if applicable) and rating agency sub-grouping for capital structures, rates for debt and common equity and an overall rate of return.

The capitalization rate procedures used are in compliance with Wyoming Department of Revenue Rules and Regulations, Chapter 7 "PROPERTY TAX VALUATION METHODOLOGY AND ASSESSMENT (DEPARTMENT ASSESSMENTS)" Section 7. Capitalization Rate Development.

The Band-of-Investment method was used to estimate the capitalization rates. This method requires capital structures and rates based upon current industry standards as evidenced by the market. Individual company embedded rates of return and capital structures were not used.

The capital structures used were those typical to an industry rather than company specific. Good appraisal practice dictates use of a capital structure typical for an industry purchaser. Data was gathered by industry, industry sub-grouping (if applicable) and sub-groupings with similar bond ratings and estimated on the basis of current market statistics, trends, regulatory guidelines, financing considerations and appraisal judgment. Rates (debt and common equity) changed from the prior assessment year study. The rates did not change uniformly from industry to industry or by respective bond ratings.

Rates of return for debt were based upon the annual average of the current yields of bonds. Sources for this data were reviewed from: Mergent's Bond Record, Standard and Poor's Corporate Bond Yields, Value Line Investment Survey, Cooperative Finance Corporation and the 20 Year Constant Yields from the Federal Reserve Bulletin.

Equity rates of return were based upon industry data for indicated returns on common equity. The equity rates were based on various measures of cash returns on annual average high and low common stock prices as shown in the January 3, 2012 “Wall Street Journal”. The Discounted Cash Flow Model (DCF), Risk Premium Model (RP) and the Capital Asset Pricing Model (CAPM) were used to determine equity rates of return. Risk Premiums and Firm Size and Return adjustments were calculated from the Morningstar, Inc. 2012 Stock, Bonds, Bills and Inflation Yearbook, Valuation Edition.

Appraisal Services Group appraisers analyzed the studies and/or comments as submitted by the respective companies or industries by the March 13, 2012 deadline, and utilized them when deemed appropriate under Department of Revenue Rules and Regulations to assist in developing derived rates. The final rates and overall rates of return reflect Flotation Cost adjustments as calculated by the Department from available sources, i.e. Public Utility Finance Tracker and industry studies, as applicable.

Consideration was not given to the following capitalization rate issues: use of spot rates; Fourth (4<sup>th</sup>) Quarter and/or December averages for debt rates as compared to annual averages; other extraordinary industry and/or company specific equity rate assumptions not consistent with sound appraisal practices or Department Rules and Regulations.

Although capitalization rates involve many subjective judgments, the Department has made reasonable estimates that reflect current market conditions or changes in industry patterns for the appraisal period. The Department greatly appreciates the efforts of all parties who assisted with the capitalization rate process by submission of studies, supplemental comments and attendance at the annual Appraisal Services Group capitalization rate input meeting conducted March 6, 2012.

**WYOMING DEPARTMENT OF REVENUE  
PROPERTY TAX DIVISION  
APPRAISAL SERVICES GROUP  
2012 CAPITALIZATION RATE STUDY**

**TELECOMMUNICATIONS**

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE	
		BONDS	DEBT	PREFERRED STOCK	COMMON EQUITY	DEBT	PREFERRED STOCK		COMMON EQUITY
Reseller/Broadband	All		25%	0%	75%	6.54%	0.00%	12.17%	10.75%
Local Exchange	All		42%	0%	58%	6.78%	0.00%	11.17%	9.35%
Long Distance	All		42%	0%	58%	6.78%	0.00%	11.17%	9.35%
Rural Communications	All		33%	0%	67%	7.60%	0.00%	10.89%	9.80%
Cellular/Wireless	All		34%	0%	66%	6.29%	0.00%	11.42%	9.70%
VOIP	All		35%	0%	75%	6.54%	0.00%	12.17%	10.75%

**WYOMING DEPARTMENT OF REVENUE  
PROPERTY TAX DIVISION  
APPRAISAL SERVICES GROUP  
2012 CAPITALIZATION RATE STUDY**

ELECTRIC-PRIVATE, G &T, RURAL, MUNICIPAL, MERCHANT

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE
		BONDS	DEBT	PREFERRED STOCK	COMMON EQUITY	DEBT	PREFERRED STOCK	
Private and G and T's	A	38%	0%	62%	4.84%	0.00%	9.48%	7.70%
	BBB	42%	0%	58%	5.47%	0.00%	10.02%	8.10%
	BB	47%	0%	53%	7.28%	0.00%	10.64%	9.05%
Rural Electric Distribution	N/R	52%	0%	48%	6.65%	0.00%	7.69%	7.15%
Municipal	N/R	41%	0%	59%	5.86%	0.00%	9.95%	8.25%
Merchant/Generation	All	54%	0%	46%	6.74%	0.00%	10.27%	8.35%

**WYOMING DEPARTMENT OF REVENUE  
PROPERTY TAX DIVISION  
APPRAISAL SERVICES GROUP  
2012 CAPITALIZATION RATE STUDY**

LIQUID PIPELINES

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE	
		BONDS	DEBT	PREFERRED STOCK	COMMON EQUITY	DEBT	PREFERRED STOCK		COMMON EQUITY
Interstate Carriers	All		31.57%	0.00%	68.43%	5.83%	0.00%	13.36%	11.00%

**WYOMING DEPARTMENT OF REVENUE  
PROPERTY TAX DIVISION  
APPRAISAL SERVICES GROUP  
2012 CAPITALIZATION RATE STUDY**

NATURAL GAS PIPELINES

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE
		BONDS	DEBT	PREFERRED STOCK	COMMON EQUITY	DEBT	PREFERRED STOCK	COMMON EQUITY
Interstate Carriers	All	31.57%	0.00%	68.43%	5.83%	0.00%	13.36%	11.00%

**WYOMING DEPARTMENT OF REVENUE  
PROPERTY TAX DIVISION  
APPRAISAL SERVICES GROUP  
2012 CAPITALIZATION RATE STUDY**

**GAS DISTRIBUTION**

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE
		BONDS	DEBT	PREFERRED STOCK	COMMON EQUITY	DEBT	PREFERRED STOCK	
	All	30.40%	0.00%	69.60%	5.02%	0.00%	10.04%	8.50%

**WYOMING DEPARTMENT OF REVENUE  
PROPERTY TAX DIVISION  
APPRAISAL SERVICES GROUP  
2012 CAPITALIZATION RATE STUDY**

**AIRLINES-PASSENGER & CARGO**

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE
		BONDS	DEBT	PREFERRED STOCK	COMMON EQUITY	DEBT	PREFERRED STOCK	COMMON EQUITY
Passenger Carriers	All	53%	0%	47%	7.16%	0.00%	13.45%	10.10%
Cargp Carriers	All	27%	0%	73%	5.05%	0.00%	13.00%	10.85%



**WYOMING DEPARTMENT OF REVENUE  
PROPERTY TAX DIVISION  
APPRAISAL SERVICES GROUP  
2012 CAPITALIZATION RATE STUDY**

RAILROADS

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE
			PREFERRED	COMMON		PREFERRED	COMMON	
		BONDS	DEBT	STOCK	EQUITY	DEBT	STOCK	
Class I	All	22%	0%	78%	5.43%	0.00%	11.70%	10.30%

**WYOMING DEPARTMENT OF REVENUE  
PROPERTY TAX DIVISION  
APPRAISAL SERVICES GROUP  
2012 CAPITALIZATION RATE STUDY**

CABLE AND SATELLITE

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE	
		BONDS	DEBT	PREFERRED STOCK	COMMON EQUITY	DEBT	PREFERRED STOCK		COMMON EQUITY
Cable	All		44%	0%	56%	6.12%	0.00%	12.30%	9.60%
Satellite	All		47%	0%	53%	7.06%	0.00%	11.21%	9.25%